

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Report of the Banking Committee  
**Date:** March 6, 2000

**Recommended Actions:**

1. Adopt the following:

Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$16,000,000 Dormitory Revenue Bonds, Series S.U.I. 2000.

**(ROLL CALL VOTE)**

2. Approve the report of the Banking Committee.

**Executive Summary:**

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on March 15, 2000, the Banking Committee is scheduled to consider the approval of the minutes from the February 2000 Banking Committee meeting, modifications of institutional banking relationships, and the Preliminary Resolution for the Sale of up to \$16,000,000 Dormitory Revenue Bonds, Series S.U.I. 2000.

The Banking Committee is scheduled to receive the Investment and Cash Management Reports for the Quarter Ending December 31, 1999, and performance evaluations of the external investment fund managers. The Banking Committee is also scheduled to receive external revenue bond fund audit reports and internal audit reports from the University of Northern Iowa.

**Background:**

**Approve Minutes of the February 9, 2000, Banking Committee Meeting**

The minutes of the meeting will be included with the materials for the Banking Committee meeting.

**Investment and Cash Management Reports for the Quarter Ending December 31, 1999**

The Regent institutions maintain two investment portfolios -- operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

As of December 31, 1999, the market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$785.3 million. The university operating investment portfolios performed in line with the comparable industry standards.

The investments of the combined Regent endowment portfolios (not including university foundations), as reported by Wilshire Associates, totaled \$220.0 million.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios had returns of 14.1% and 12.9%, respectively, for the quarter. The blended asset allocation benchmark posted returns of 10.4% for the quarter.

As of December 31, 1999, the University of Iowa endowment portfolio was slightly outside the target ranges as set forth in the Board policy for manager allocation and domestic equity allocation. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter.

Wilshire reported that Invesco's endowment equity segment under-performed its benchmark, while the endowment fixed income segment out-performed its benchmark. Seneca exceeded the Wilshire Mid Cap Growth Index and the S&P 400 Mid Cap Index. In its second full quarter as the Regent international investment manager, Sanford Bernstein under-performed its benchmark primarily due to European exposure in France, Spain, and the United Kingdom.

For the quarter ended December 31, 1999, university internal auditors verified that investment purchases of the institutional portfolios and holdings were in compliance with respective Board and institutional investment policies.

## **Performance Evaluation of External Investment Fund Managers**

The Board employs an investment advisor and several money managers to guide its policy of active investment management for institutional funds as detailed in the Regent Procedural Guide. Wilshire Associates has been the investment advisor to the Board and its institutions since May 1996.

The Board's principal endowment fund managers include Invesco Capital Management, Seneca Capital Management, and Sanford C. Bernstein & Co., Inc. BlackRock is the only external fund manager that invests some of the institutional operating funds.

The Board's investment policy stipulates that the external investment managers for the institutional portfolios shall meet with the Banking Committee, Board Office, and institutional representatives annually to review the investment outlook, structure of their portfolios, and past results. The policy provides that the Board's investment advisor present annually a comprehensive evaluation of the performance of the Board's endowment fund managers.

Representatives from Wilshire and each of the external investment fund managers are scheduled to make presentations. Bernstein and BlackRock representatives will be presenting performance information to the Banking Committee for the first time.

## **Modification of Institutional Banking Relationships**

Iowa Code §12C.2 requires the Board of Regents to approve financial institutions that serve as depositories. The Regent Procedural Guide §7.34(H) states that proposed changes to banking relationships shall be reviewed by the Banking Committee and approved by the Board.

The University of Iowa reports two modifications — a name change from American National Bank – Chicago to Bank One – Chicago and the deletion of a footnote for the University's deposit at Firststar Bank Iowa in Cedar Rapids since it no longer includes trust funds.

Iowa State University requests approval to increase the maximum limitation at Firststar Bank Ames from \$500,000 to \$1,000,000 to handle the increase in demand for petty cash accounts.

The University of Northern Iowa requests approval to increase the maximum limitation at Norwest Bank from \$12,000,000 to \$20,000,000 to allow the University a more reasonable limit because of the increased moneys from bond issues.

Iowa Braille and Sight Saving School requests approval to increase the maximum limitation at Union Planters Bank from \$800,000 to \$1,000,000 due to timing fluctuations of capital drawdowns and grant receipts.

Iowa School for the Deaf requests no changes.

The Banking Committee is requested to recommend the Board approve the amendments to the approved list of financial institutions.

### **Preliminary Resolution for Sale of \$16,000,000 Dormitory Revenue, Series S.U.I. 2000**

The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$16,000,000 Dormitory Revenue Bonds, Series S.U.I. 2000. The bonds were included in the Proposed Bond Issuance Schedule for Calendar Year 2000 presented to the Banking Committee in November 1999. The bonds would be sold to finance, in part, the west campus food service consolidation at Hillcrest Residence Hall, telecommunications improvements in eight residence halls, and other improvements to the University's residence system.

The bonds will be issued for a period of 21 years, with debt service of approximately \$1,365,000 annually to be paid from net rents, profits and income from the operation of the residence system. The University's residence system is a self-supporting operation and receives no state appropriations.

### **Revenue Bond Fund Audit Reports (UNI)**

Independent auditors conducted the revenue bond fund audits at the University of Northern Iowa for the fiscal year ended June 30, 1999, as required by the bond covenants.

Revenue bond fund audit reports were presented for the following enterprises: Academic Building, Field House, and Residence System (Dormitory). The reports indicated that the financial statements of each of the revenue bond funds were presented fairly in all material respects. No findings were reported.

## Internal Audit Reports

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up. When corrective action has been satisfactorily completed, the audits are closed.

Five completed internal audit reports are presented this month: three new and two follow-up. For the recommendations identified in the reports, corrective action is being taken or has already been satisfactorily completed.

The *Status of Internal Audit Follow-Up* table identified 27 internal audits which require follow-up.

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Pamela M. Elliott

Approved: \_\_\_\_\_  
Frank J. Stork